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WAR REVENUE

SPEECH

OF

HON. J. W. WADSWORTH, JR.
OF NEW YORK

IN THE

SENATE OF THE UNITED STATES

THURSDAY, SEPTEMBER 6 (LEGISLATIVE DAY
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The Senate had under consideration the bill (H. R. 4280) to provide revenue to defray war expenses, and for other purposes.

Mr. WADSWORTH. I fear I shall seem to those Senators who have listened to this debate to be somewhat unorthodox in that I shall not refer in any extended manner to some of the claims for credit that have been made upon the floor. It strikes me that we should endeavor to direct our attention to what the Senate is doing rather than to determine which Senator is doing it.

I have the greatest respect for the Committee on Finance, and I take this occasion to express my admiration for the work which it has done. At the same time I do not believe there is any member of that committee who would claim infallibility, nor will any member of the committee contend that there is much importance attached to the question as to where the credit shall lie for raising some of the rates in the bill since the committee made its report. The country, sir, is not concerned with the distribution of credit on the floor of the Senate as between the majority and the minority of the committee nearly as much as it is concerned as to what the outcome shall be. So with the permission of my colleagues I will not endeavor to throw any light upon that moot question which has been so often referred to.

Mr. President, I have listened to many of the addresses with very deep interest. The Senator from Washington [Mr. JONES] has made an exceedingly interesting address to-day, and I was particularly impressed with that portion of it in which he declared, at the beginning, his belief that this war was to be a long war, that it might not end within a year, and might go even further. I agree with him in the analysis of the military situation. It must be apparent to every person who

endeavors to measure the forces that are at play in Europe and, in fact, over the world, that the contest is not drawing to an early close. The comparative disorganization of Russia, without any question, unless some other unlooked-for event takes place, may be said, I think, safely, to have added one year's time to the duration of the war. It is for the very reason, sir, that I am convinced we are in for a struggle which will last through a considerable period of time—and no man may prophesy accurately just what its duration will be—that I think it incumbent upon the Congress of the United States to build in its taxation measures a fiscal system which will withstand any strain which may be imposed upon it as the months and perhaps the years go by. If I could believe that the war would end within one year and that this, as a result, would be the only extraordinary tax bill to be presented to Congress, I would the more willingly follow the suggestions of the Senator from Washington [Mr. JONES] and the suggestions of those who have contended, as he has contended to-day, that we should greatly increase the rates of taxation.

Mr. President, it would be difficult to fix a limit to the amount of money which can be raised by taxation in the United States during one year; and if it would suffice to raise all we could in the year 1918—to actually conscript wealth in order to win the war within that period—and if it were possible to do it, I would not contend against the utter and entire conscription of wealth. But, Mr. President, we must exercise some caution, some prudence; we must direct our examination toward the future and attempt, if we can, to calculate the weight of the burdens which may come to us in the year 1919, in the year 1920, perhaps, and even, sir, the burdens which may come to this country after the war is over; for, to put it mildly, we shall be confronted with some exceedingly interesting problems at the conclusion of this great war. So I say that, while I would be willing to assess the most drastic and well-nigh confiscatory tax if I felt absolutely certain that this burden would have to be carried for only one year, by the same course of reasoning, Mr. President, I am opposed to assessing at this time overdrastic or

nearly confiscatory taxes, because I am confident that we will have to carry these burdens for more than one year.

A good many efforts have been made during this debate to compare our condition with the condition of some of our allies, and to draw conclusions therefrom. That is a rather dangerous process, and some of the conclusions reached by that process can be very much in error. It has been said that we should do what England has done—not what England did at the beginning of the war, but what England is doing now. I shall not stop to compare the rates fixed in this tax bill as now written with the rates of taxation fixed in England at the beginning of the war, or the second year of her participation, or during this present year, but I shall endeavor to point out to the Senate that the industries and the commercial structures of England are on a very different basis than are the industries and the commercial structures of the United States.

England, sir, is an old country; her industries and her commerce have been long established. English bankers and merchants and manufacturers have been extending their operations all over the world since the close of the Napoleonic wars, at which time, if I remember history correctly, the great industrial and commercial expansion of England, coincident with the establishment of the modern factory system, commenced. It can truthfully be said that England's commerce and industries and banking have reached a degree of standardization that has not been reached in the United States; and I think the explanation is comparatively simple and must be conceded by any person who would compare the conditions of the two countries.

We are still expanding internally? Industrially speaking and commercially speaking we are still a new country; and I venture to say that it will be two or three or perhaps four generations before we shall reach that stage of standardization in our industries and business which is now occupied by the industries and business of England. It is, therefore, much easier, Mr. President, for an English statesman to measure the effect of taxation upon English industry. The cost of production within the borders of England of any article is practically uniform; the wage scales within the borders of England in a given industry

are practically uniform; the charges for freight transportation in England are much less important in their relation to the cost of the finished product than are the transportation charges in the United States. England being a small, compact country, it is not nearly so difficult for the British Government to measure the effect of, we will say, a war-profits tax upon the industries of England, because their degree of standardization is so far advanced that it is reasonably known in advance just what burdens they can bear.

When the war broke out industry in England was not in a process of marked expansion; it was moving along settled lines, well-established channels; and a statistician or economist could calculate exactly what burdens the industries of England could withstand from year to year. So it may seem upon first thought that they moved more boldly than we have with respect to the rates recited in the respective tax laws. They appear to have taxed their industries at a little higher rate; but, Mr. President, our industries have been going through a remarkable evolution during the last three years, all the more remarkable because when compared to their condition during the three prewar years, which were subnormal, their prosperity appears comparatively large. Our three prewar years were abnormal years, just as our three years of the war have been abnormal years; and it is very difficult to take those two periods and compare them with the two like periods in Great Britain or even in France and say to the industries of America, "We will do to you exactly what England and France did to their industries."

It is perfectly true that some of the manufacturing industries of the United States have been tremendously prosperous during the last three years; it is perfectly true that some very large fortunes have been accumulated, although there are not nearly as many of them as some sections of the press would have the public believe. I think no one will contend that those fortunes and those industries should escape their just burden of taxation; but while we are attempting to measure the burden which they can carry—and they are the conspicuous few—we must take into consideration the burden

which the average business institution can carry. When we come to the average business institution we do not find any such remarkable condition of affairs.

Much has been said upon the floor about the effect of this proposed tax law upon the United States Steel Corporation, upon the Bethlehem Steel Corporation, and upon the Du Pont Powder Co. I have been tempted to believe that there are some Senators here who think that our tax laws should be so framed as to suit and meet the conditions of those three companies without much regard to the great number of other organizations in the United States. So often have they been cited as examples, horrible or otherwise, that I have been tempted on more than one occasion to suggest that a separate tax bill be drawn applicable to them alone, and then we might get down to a discussion of a tax bill applicable to the ordinary industries of the United States.

There have been some rather remarkable comments made upon finance and economy in the discussion of the affairs of some of these great corporations. The Senator from Washington to-day stated very plainly on two or three occasions that he had no concern for percentages; that the people of the United States, the patriotic people of the United States, had no concern for percentages; but I think one is entitled to inquire how we are to measure any burden of taxation except by the percentage system? When a question is asked a Senator who is explaining his theory of taxation and that question includes an inquiry as to what percentage the net profits of a corporation bear to its invested capital and the reply is made that that is of no importance and of no concern to a Senator or to the public, I wonder how the industries of the United States would thrive under that kind of financial management, for before we do anything else in managing a business or writing a tax bill we must resort to percentages to find out where we are.

I fear also, Mr. President, that the impression has been created, or has been sought to be created, that the two or three great corporations that have been so often named and about which I know very, very little, are owned by one, two, three, or four men, respectively. One of the purposes of my question

addressed to the Senator from Washington with respect to the United States Steel Corporation was to ascertain, if possible, what effect his theory of taxation would have upon the stockholders of the United States Steel Co., of whom, I believe there are 100,000, the great majority of whom, I understand, are comparatively poor people, many of them being mechanics working in the steel mills. But that apparently, according to the Senator from Washington, is not an important question; it is of no concern to the Senate or to the public.

Mr. President, it has been suggested that it would be a judicious and proper exercise of the taxing power so to fix the taxes upon war profits or excess profits, whichever we shall call them, as to leave no dividends to the stockholders. That was the clear intimation made in the argument this afternoon. May I suggest that we can do that for just one year, but after one year's attempt at any such taxation as that the United States would be prostrate and we would be defeated in this war? I think it well, sir, to straighten out a few of these ideas, if I may presume to do so or to attempt to do so, because, having been inserted in the RECORD, it goes out to the country that it is wise and proper to disregard the stockholders of corporations, who are American citizens and dependent by the thousands upon some dividends, at least, to maintain themselves.

We can not eat our cake and have it. As I said at the beginning, we can raise almost any amount of money the first year, but if we make it impossible for people to continue in business upon an expanding scale by taking away from them too much of their surplus or all of their surplus, at the end of one year the business of the United States will be stagnant.

There are only two directions in which business can move—forward or backward. When I used the term "stagnant," sir, I used an inaccurate expression, for a business that is stagnant is in effect going backward. No business stands still. It is either going forward or it is going backward, and the thing which should concern us more than anything else in writing a tax law, particularly in the first year of a war when to a large extent our tax measures must be experimental, is that we shall guarantee the continued expansion and forward movement of

our industries. Mr. President, we can not have a forward movement, we can not have expansion of industry if the Government takes all the surplus profit. Instead, we are bound to have industrial collapse; and there is no more effective method of bringing our Nation to ultimate military defeat than by causing an industrial collapse through the imposition of taxes which will drain the country of its surplus of financial resources.

What are the functions of large profits? What are the functions of large incomes? I have heard it stated here that the large profits that have been heaped up by corporations during the last three years—and without any doubt there have been some very large profits—have been heaped up, and, to quote the language of the Senator from Idaho [Mr. BORAH] “have been stored away”; painting the picture to the public that these millions or billions, as the case may be—I do not count myself accurate in statistics—earned by our business concerns during the last three years have gone into the pockets of a few people and have been spent, if spent at all, solely upon luxuries; stored away, presumably, if the picture is carried out with due regard to the artistic necessities, to purchase automobiles, to build palaces, to maintain yachts. But, Mr. President, I venture to say that the vast majority of the so-called war profits have been reinvested in expanded plants; and thank Heaven, sir, that has been done, for had it not been done it would have proved impossible for us to equip our Army and our Navy for the war that we embarked upon last April.

Mr. HARDING. Mr. President—

Mr. WADSWORTH. I yield to the Senator from Ohio.

Mr. HARDING. Is the Senator from New York aware that one great concern in this country, whose name he has given in his very interesting remarks, received an order from a department of the Government requiring it to make practically a twenty-million-dollar extension, under the admonition from the governmental head that if these extensions were not made the Government itself would be impelled to take charge of the plant and operate it?

Mr. WADSWORTH. Mr. President, I have heard of that case. I have no personal or direct knowledge of it; but I be-

lieve the statement of the Senator from Ohio to be true that the particular corporation to which he refers invested \$20,000,000 to expand its plant in order to meet governmental needs. Rather than calling it something reprehensible to have accumulated profits during this war, and rather than to try to arouse the prejudices and the passions of the people of the United States against concerns that have made these profits, I am glad that they have made them, in order that that corporation could marshal \$20,000,000 to invest to meet the needs of the Government.

Mr. HARDING. Mr. President, will the Senator yield further?

Mr. WADSWORTH. I yield again.

Mr. HARDING. I should like the Senator to put in the record of his very interesting speech the fact that the expansions were made to furnish the Government its needs at prices fixed by the Government.

Mr. WADSWORTH. My recollection of the incident is that the price is to be fixed by the Government at a later time.

Mr. WEEKS. Mr. President——

The PRESIDING OFFICER. Does the Senator from New York yield to the Senator from Massachusetts?

Mr. WADSWORTH. I yield to the Senator from Massachusetts.

Mr. WEEKS. May I suggest to the Senator from New York that in all probability, if this company did invest \$20,000,000 in additions to its plant at this time, when business conditions return to normal it will have to charge off about \$10,000,000 in order to get back to the normal standard and to the costs which would have resulted in normal times?

Mr. WADSWORTH. Mr. President, the Senator from Massachusetts is entirely right, and I am inclined to believe that he has understated the matter. Upon the invitation of the Government, literally dozens and scores of these much-abused business concerns have used these so-called war profits, which the Senator from Idaho has depicted as being stored away in the pockets of the few, and are using them to-day in the service of the country to meet the needs of the Government by expanding their plants to construct field artillery, heavy artillery, shrapnel shells, and supplies of every kind and description for the Army

and the Navy. We are fortunate, Mr. President, that that is the state of affairs under which we commenced this war.

Now, sir, we do not know how long this war is going to go on. This tax bill, if I remember correctly—and if not the Senator from North Carolina can correct me—is to take \$1,200,000,000 of war profits in 1918 from this class of concerns; and it is not a confined class. It is a very large and widely extended class of concerns. It would be surprising, I believe—and I wish I had the figures here—it would be surprising, I believe, if the Senate could know how widely scattered are the industries which are called upon to support this Government in the operations of the war. We are to take \$1,200,000,000 from them, which in all frankness I say is a pretty round sum. Of course it is possible to take more. We could take \$3,000,000,000 from them if we waited until the end of 1918 and sprung it on them quickly. We could take three and a half billions from them; but where would we be in 1919? There would be no more expansion. You can not expect any man or any company, great or small, to build an addition to his plant on air. He can not do it by borrowing money if the tax rates are so high as to frighten away the banker. He can only do it by using his surplus, accumulated out of a prosperous year's business.

It strikes me, Mr. President—and it is with some hesitation that I again refer to this war-profits tax, because we have settled it; but the Senator from Washington [Mr. JONES] has constantly referred to it in his speech this afternoon—it strikes me that the committee has done the prudent thing, has done the wise thing. As the Senator from Washington says, this may not be our last tax bill. I am inclined to think it will not. It may be that we shall have to raise rates; it may be that we shall have to develop new forms of taxation if the burdens of the war become heavier and if it goes on for two or three or four years. But I venture to say that if some of the theories proposed upon this floor in the matter of taxation were written into this bill, and we did have in effect actual conscription of all the surplus profits, it would be our last tax bill.

Mr. SMOOT. Mr. President, will the Senator yield?

Mr. WADSWORTH. I yield to the Senator from Utah.

Mr. SMOOT. Right in that connection I desire to say to the Senator there has been a persistent effort among certain Senators to create the impression throughout the country that we were not taking the percentage of profits that we ought to. I want to call the Senator's attention to the fact that many Senators in this debate have said that 50 per cent is the highest rate in any one bracket that will be collected from incomes. That is not so. The present law imposes a tax of 17 per cent upon incomes over and above \$2,000,000. Now, take the case of an individual whose percentage of the profits of a corporation earning 10 per cent per annum would be \$1,000,000. Under the existing law and the pending bill we impose an excess-profits tax of $52\frac{3}{16}$ per cent. On the \$1,000,000 there would be collected \$529,000. Deducted from the million dollars leaves \$471,000. Then deduct the income tax on that amount, being $38\frac{4}{16}$ per cent, amounts to \$179,168.40, leaving for the individual, out of the \$1,000,000, \$291,831.60, providing he had no other income from any source. If his income was larger, the percentage of tax would be greater.

Mr. WADSWORTH. Mr. President, let me say, by way of comment on the figures presented by the Senator from Utah, that that would certainly seem to be at least an approach to the conscription of wealth.

Mr. HARDING. Mr. President, before the Senator from New York gets away from this very interesting phase of finance and industrial operations I should like to have him refer to the fact that the stocks and bonds of industrial institutions and financial institutions in the United States have very naturally been given their valuation from the activities and profits incident to the last three years. Naturally, therefore, these bonds are in bank as collateral to loans on values adjusted for three years of activity during the European war. Has the Senator contemplated the effect on financial problems of greatly reducing the value of these collaterals by excessive demands upon these concerns?

Mr. WADSWORTH. Mr. President, if you impair the collateral, the bank of course will ask for more collateral or call the loan, and then you have severe financial disturbance.

I think the same observations may be made with respect to personal incomes that may be made with respect to the profits of business concerns, partnerships, or corporations. It is perfectly true, sir, that any man can live, as the Senator from Nebraska [Mr. NORRIS] said this afternoon, on \$15,000 a year. It is perfectly true, he might just as well have said, that he could live on \$10,000 or \$5,000 a year. I have never felt any anguish over the sufferings of the rich during a war or at any other time. There is no means, whether by taxing or otherwise, by which we could starve the rich if we wanted to. They can always manage to survive by living on their capital. But there is a very important element other than the fixing of a standard at which any man may live and support his family and send his children to school, and that is the function to be performed by the surplus of that man's income.

The picture painted by the Senator from Nebraska would lead people to believe that the 121 persons—I think that is the number—who enjoy incomes in the United States of over \$1,000,000 spend all that money for their personal luxuries, and that every man who happens to enjoy an income in excess of his actual living necessities spends it on idle luxuries. Mr. President, I venture to say that those who are fortunate enough to have these tremendous incomes spend a comparatively small proportion of them upon their living expenses. I venture to say, further, that the great proportion of the income goes back into productive activity in the form of new investments which build new concerns, employ more men, and develop resources all over the country. That is what has been going on in the United States ever since the Civil War—expansion, development. All of it comes, or nearly all of it comes, from making use of the surplus or the savings, whichever you choose to call it, out of the incomes of the people.

I think the best definition of capital that I have ever heard is that it is the organized savings of the people. Now, you are not helping the country, you are not helping the industries, you are not helping the war when you prevent people from saving; and I even apply that principle to the very rich. Do not think for

a moment that I believe that the rates fixed in this bill are too high. I think the very rich man should pay 50 per cent on the top bracket; but the money even of the multimillionaire which he does not need and which he does not use for his own living expenses when reinvested and set to work in the form of organized capital and joined in with all the savings of all the other people in the country who save anything, is of more use to the United States for a two-year war or a three-year war or a four-year war than if it were all taken away from them and put in the Treasury in the year 1918.

Mr. LODGE. Mr. President——

Mr. WADSWORTH. I yield to the Senator from Massachusetts.

Mr. LODGE. Is it not also true that for the surplus or the savings of which the Senator is speaking we must look principally for taking the loans?

Mr. WADSWORTH. Absolutely.

Mr. LODGE. The Senator can state better than I the effect on our credit.

Mr. WADSWORTH. Mr. President, the existence of a generous surplus, unendangered, unthreatened by any law, is the one essential for the carrying on of a great modern war, where industrial organizations and industrial activities are so important. We can not be sure that we shall come to a successful conclusion in this tremendous effort by so arranging things that we shall make just enough money to live on, because if we make any miscalculation in that we shall fall down into utter destruction. We have got to make a generous calculation of the surplus that we shall leave in the hands of industry, that it may be reinvested; that it may expand and take up any slack that may occur in our commercial or industrial activities from time to time. There must be a generous margin of safety. And when the Senator from Washington [Mr. Jones] says that if he had his way he would take out of the \$490,000,000 of estimated profits of the United States Steel Corporation for 1918, all but \$90,000,000 and leave only that \$90,000,000 of net profits for that corporation, he would wreck the Steel Corporation.

Our whole shipbuilding program would be destroyed. The company could not live beyond the year 1918. Ninety million

dollars would not enable it to pay even a dividend worthy of the name to their stockholders, let alone having any surplus to meet the strain of the years to come. If we adhere to any such principle, if we adopt any such theory of taxation, we shall lose this war instead of winning it.

Mr. President, the Senator from Massachusetts has said something about our credit. Of course it is dependent upon the industrial and agricultural and commercial prosperity of the country. I would not presume to attempt to address the Senate on that tremendously difficult and important topic, except most briefly.

Mr. President, it may be said that credit depends upon two things. When a man goes to a bank to borrow money the cashier wants to know two things about him: First, his character, and one of our greatest financiers said he placed more importance upon the character of his prospective borrower than upon his assets; and, second, the comparative prosperity of the business in which he desires to put the proceeds of his loan.

We will assume, Mr. President, that American industry enjoys a good character. The next thing the lender wants to know is about the prosperity of the industry in which he is going to invest the money, not this year alone, but what will be its condition next year when he will have to pay interest, and the year after that when he will have to pay interest, and the year after that when, perhaps, according to the terms of the loan, the lender may want all his principal back.

The credit of the Nation is on the same basis as the credit of an individual, and if we shall so fix our tax laws as to lead the lenders of the country into the belief that our industries will not be prosperous a year from now or two years from now, and will not be permitted to accumulate and use a generous surplus the credit of the country will be hurt. We will not be able to float bonds with that readiness and facility that would otherwise be the case.

Now, it is apparent to every man who stops to think that we can not pay for this war as we go, at least we could not do it except we confined it to one year which is, I imagine, conceded to be impossible. We must borrow money. The Government

must borrow money on the credit and faith of the United States, and the thing that underlies a Government bond is the potential prosperity of the industries and the agriculture of the country. The Government can not cramp and stagnate industries with one hand through the taxing power and expect to borrow all the money it wants with the other hand. You can not extract blood from a stone.

For one, sir, I believe that the committee, in spite of the criticisms that have been fanned into a flame against it, in spite of the idea that is sought to be spread abroad that the so-called swollen fortunes and swollen corporation profits are not taxed enough—I believe that the Committee on Finance has been endowed with a true vision in this matter and has looked beyond the year 1918 and endeavored to estimate and analyze what will be our condition in 1919 and has refused to take any chance which if ill taken would bring disaster to us in this war.

We can tell better when 1919 comes whether this bill taxes industries and profits and fortunes sufficiently. My humble judgment is that it goes just about far enough, just about what those industries and fortunes will bear in the first year of a war. At the very best, with due respect to the members of the Committee on Finance, it is largely experimental. Neither they nor I nor any other Senator can tell exactly what the effect is going to be, but I do believe most sincerely, Mr. President, that it is wiser for us to proceed a little slowly, so that we shall not make it impossible for us to proceed with lightning and irresistible speed in that day and year when America shall strike the decisive blow.

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